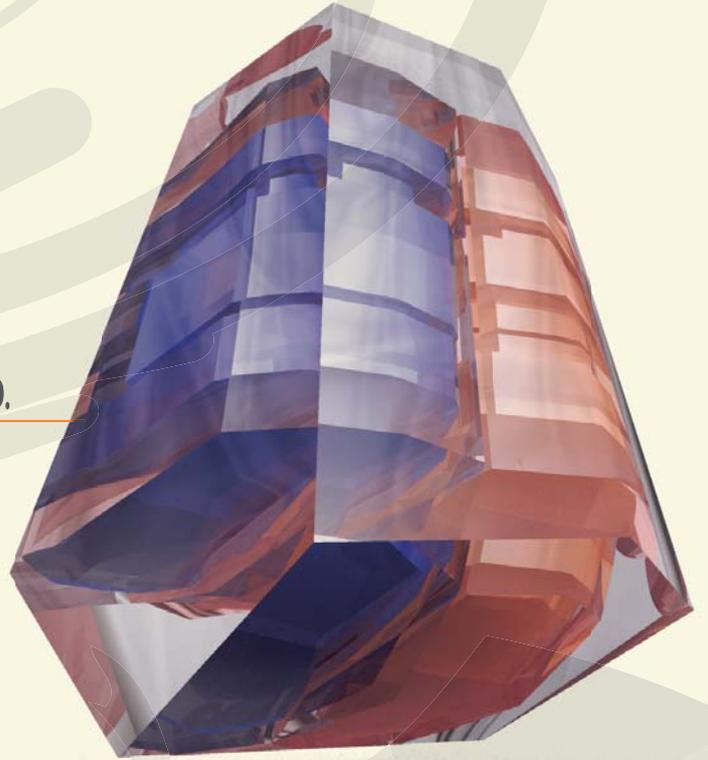




**TIMELESS** SOFTWARE LTD.



**Agile Consolidation**

Wide Compatibility

**Sturdy Technology**

Platform Products

Platform Solutions

**Originals**

GuangCunYuan GuangCunYuan

ZiWangYuan ZiWangYuan

ZiFaYuan ZiFaYuan

SouSuoYuan SouSuoYuan

ShiXiangYuan

ShiXiangYuan

**Interim Report**

for the quarter ended 30 September 2006

# Characteristics of The Growth Enterprise Market (“GEM”) of The Stock Exchange of Hong Kong Limited (the “Exchange”)

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the internet website operated by the Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

*The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this interim report, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this interim report.*

*This interim report, for which the directors of Timeless Software Limited collectively and individually accept responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to Timeless Software Limited. The directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:- (1) the information contained in this interim report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this interim report misleading; and (3) all opinions expressed in this interim report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.*

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# Deloitte.

德勤

### **INDEPENDENT REVIEW REPORT TO THE DIRECTORS OF TIMELESS SOFTWARE LIMITED**

*(incorporated in Hong Kong with limited liability)*

#### **Introduction**

We have been instructed by the directors of Timeless Software Limited to review the interim financial report set out on pages 3 to 14.

#### **Directors' responsibilities**

The Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and the relevant provisions thereof. The interim financial report is the responsibility of, and has been approved by, the directors.

It is our responsibility to form an independent conclusion, based on our review, on the interim financial report, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

#### **Review work performed**

We conducted our review in accordance with Statement of Auditing Standards 700 "Engagements to review interim financial reports" ("SAS 700") issued by the HKICPA. A review consists principally of making enquires of group management and applying analytical procedures to the interim financial report and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial report.

#### **Review conclusion**

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 30 September 2006.

Without modifying our review conclusion, we draw to your attention that the condensed consolidated income statements for each of the three months ended 30 September 2006 and 30 September 2005 disclosed in the interim financial report have not been reviewed in accordance with SAS 700.

#### **Deloitte Touche Tohmatsu**

*Certified Public Accountants*

Hong Kong

10 November 2006

## Condensed consolidated income statements

For the three months and six months ended 30 September 2006

	Notes	(Unaudited) Three months ended 30 September		(Unaudited) Six months ended 30 September	
		2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Turnover		<b>733</b>	809	<b>843</b>	2,372
Other income	4	<b>2,114</b>	197	<b>3,826</b>	2,554
Cost of computer software and hardware sold		—	(48)	—	(692)
Staff costs		<b>(6,550)</b>	(3,695)	<b>(9,160)</b>	(6,515)
Depreciation and amortisation		<b>(529)</b>	(1,583)	<b>(1,158)</b>	(4,641)
Other expenses		<b>(1,790)</b>	(1,930)	<b>(4,818)</b>	(3,557)
Impairment in value of available-for-sale financial assets		—	(1,182)	—	(1,187)
Fair value change on equity-linked notes		<b>(558)</b>	—	<b>(558)</b>	—
Impairment loss recognised on investments in a jointly controlled entity		<b>(103)</b>	—	<b>(103)</b>	—
Allowance for advance made to a jointly controlled entity		<b>(1,226)</b>	—	<b>(1,226)</b>	—
Finance costs		<b>(20)</b>	(165)	<b>(78)</b>	(341)
Discount on acquisition arising from purchase of minority shares of a subsidiary		<b>745</b>	—	<b>745</b>	—
Share of results of associates		<b>(22)</b>	370	<b>(409)</b>	(1,032)
Share of losses of jointly controlled entities		—	(1,838)	—	(3,545)
Loss for the period		<b>(7,206)</b>	(9,065)	<b>(12,096)</b>	(16,584)
Attributable to:					
Equity holders of the Company		<b>(6,947)</b>	(9,010)	<b>(11,785)</b>	(16,443)
Minority interests		<b>(259)</b>	(55)	<b>(311)</b>	(141)
		<b>(7,206)</b>	(9,065)	<b>(12,096)</b>	(16,584)
Loss per share	7				
- Basic		<b>(0.67) cents</b>	(0.88) cents	<b>(1.14) cents</b>	(1.61) cents

## Condensed consolidated balance sheet

At 30 September 2006

	Notes	(Unaudited) 30 September 2006 HK\$'000	(Audited and restated) 31 March 2006 HK\$'000
Non-current assets			
Property, plant and equipment	8	<b>8,922</b>	4,288
Interests in associates		<b>4,422</b>	6,775
Interests in jointly controlled entities		<b>—</b>	1,329
Equity-linked notes	9	<b>41,926</b>	—
		<b>55,270</b>	12,392
Current assets			
Amounts due from customers for contract work		<b>798</b>	613
Available-for-sale investments	10	<b>3,350</b>	—
Trade and other receivables	11	<b>4,938</b>	3,835
Pledged bank deposits		<b>10,455</b>	10,327
Bank balances and cash		<b>73,875</b>	132,461
		<b>93,416</b>	147,236
Current liabilities			
Other payables		<b>6,204</b>	5,205
Obligations under a finance lease due within one year		<b>50</b>	49
Financial guarantee obligations		<b>35</b>	86
Current portion of secured long-term bank loans		<b>129</b>	122
		<b>6,418</b>	5,462
Net current assets		<b>86,998</b>	141,774
Total assets less current liabilities		<b>142,268</b>	154,166
Non-current liabilities			
Obligations under a finance lease due after one year		<b>26</b>	51
Secured long-term bank loans		<b>1,204</b>	1,232
		<b>1,230</b>	1,283
Net assets		<b>141,038</b>	152,883
Capital and reserves			
Share capital	12	<b>51,789</b>	51,574
Reserves		<b>85,544</b>	94,544
Equity attributable to equity holders of the Company		<b>137,333</b>	146,118
Minority interests		<b>3,705</b>	6,765
Total equity		<b>141,038</b>	152,883

The interim financial report on pages 3 to 14 were approved and authorised for issue by the Board of Directors on 10 November 2006 and are signed on its behalf by:

**Cheng Kin Kwan**  
Chairman and Chief Executive Officer

**Law Kwai Lam**  
Director

## Condensed consolidated statement of changes in equity

For the six months ended 30 September 2006

	(Unaudited) Share capital HK\$'000	(Unaudited) Share premium HK\$'000	(Unaudited) Share options reserve HK\$'000	(Unaudited) Investment revaluation reserve HK\$'000	(Unaudited) Translation reserve HK\$'000	(Unaudited) Deficit HK\$'000	(Unaudited) Attributable to equity holders of the Company HK\$'000	(Unaudited) Minority interests HK\$'000	(Unaudited) Total HK\$'000
At 1 April 2005	50,474	630,625	—	—	—	(543,159)	137,940	6,787	144,727
Exchange differences arising from translation of financial statements of overseas operations recognised directly in equity	—	—	—	—	777	—	777	—	777
Loss for the period	—	—	—	—	—	(16,443)	(16,443)	(141)	(16,584)
Total recognised income and expense for the period	—	—	—	—	777	(16,443)	(15,666)	(141)	(15,807)
Issue of shares	703	318	—	—	—	—	1,021	—	1,021
Expenses incurred in connection with the issue of shares	—	(8)	—	—	—	—	(8)	—	(8)
Recognition of equity settled share-based payments	—	—	1,020	—	—	—	1,020	—	1,020
	703	310	1,020	—	—	—	2,033	—	2,033
At 30 September 2005	51,177	630,935	1,020	—	777	(559,602)	124,307	6,646	130,953

## Condensed consolidated statement of changes in equity (Continued)

For the six months ended 30 September 2006

	(Unaudited) Share capital HK\$'000	(Unaudited) Share premium HK\$'000	(Unaudited) Share options reserve HK\$'000	(Unaudited) Investment revaluation reserve HK\$'000	(Unaudited) Translation reserve HK\$'000	(Unaudited) Deficit HK\$'000	(Unaudited) Attributable to equity holders of the Company HK\$'000	(Unaudited) Minority interests HK\$'000	(Unaudited) Total HK\$'000
At 31 March 2006	51,574	631,122	1,770	1,183	1,256	(540,804)	146,101	6,765	152,866
Effects of changes in accounting policies	—	—	—	—	—	17	17	—	17
As restated	51,574	631,122	1,770	1,183	1,256	(540,787)	146,118	6,765	152,883
Exchange differences arising from translation of financial statements of overseas operations recognised directly in equity	—	—	—	—	469	—	469	194	663
Exchange differences arising from translation of associates	—	—	—	—	201	—	201	—	201
Fair value change in available-for-sale investments	—	—	—	(39)	—	—	(39)	—	(39)
Share of post acquisition reserve of associates	—	—	—	(1,794)	—	—	(1,794)	—	(1,794)
Net income (expense) recognised in equity	—	—	—	(1,833)	670	—	(1,163)	194	(969)
Loss for the period	—	—	—	—	—	(11,785)	(11,785)	(311)	(12,096)
Total recognised income and expense for the period	—	—	—	(1,833)	670	(11,785)	(12,948)	(117)	(13,065)
Issue of shares	215	183	—	—	—	—	398	—	398
Expenses incurred in connection with the issue of shares	—	(9)	—	—	—	—	(9)	—	(9)
Acquisition of additional interest in a subsidiary	—	—	—	—	—	—	—	(2,943)	(2,943)
Transfer of share option reserve on exercise of share options	—	97	(97)	—	—	—	—	—	—
Recognition of equity settled share-based payments	—	—	3,774	—	—	—	3,774	—	3,774
	215	271	3,677	—	—	—	4,163	(2,943)	1,220
At 30 September 2006	51,789	631,393	5,447	(650)	1,926	(552,572)	137,333	3,705	141,038

## Condensed consolidated cash flow statement

For the six months ended 30 September 2006

	<b>(Unaudited)</b>	
	<b>Six months ended</b>	
	<b>30 September</b>	
	<b>2006</b>	2005
	<b>HK\$'000</b>	HK\$'000
Net cash (used in) from operating activities	<b>(7,841)</b>	364
Investing activities		
Purchase of equity-linked notes	<b>(66,961)</b>	—
Proceeds from disposal of equity-linked notes	<b>24,831</b>	—
Purchase of available-for-sale investments	<b>(8,140)</b>	—
Proceeds from disposal of available-for-sale investments	<b>4,862</b>	—
Acquisition of additional interest in a subsidiary	<b>(2,198)</b>	—
Purchase of property, plant and equipment	<b>(5,717)</b>	(82)
Other investing cash flows	<b>1,965</b>	149
Net cash (used in) from investing activities	<b>(51,358)</b>	67
Net cash from (used in) financing activities	<b>226</b>	(1,323)
Net decrease in cash and cash equivalents	<b>(58,973)</b>	(892)
Cash and cash equivalents at 1 April	<b>132,461</b>	17,246
Effect of change in exchange rates	<b>387</b>	502
Cash and cash equivalents at 30 September	<b>73,875</b>	16,856

## Notes to the condensed consolidated financial statements

### 1. Basis of preparation

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Chapter 18 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited and with Hong Kong Accounting Standard (the "HKAS") 34 "Interim financial reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

### 2. Significant accounting policies

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values, as appropriate.

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the annual financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 March 2006 except as described below.

#### Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss has two subcategories, including financial assets held for trading and those designated at fair value through profit or loss on initial recognition. At each balance sheet date subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise. Accordingly, the equity-linked notes are designated at fair value through profit or loss on initial recognition.

#### Financial guarantee contracts

In the current period, the Group has applied HKAS 39 and HKFRS 4 (Amendments) "Financial guarantee contracts" which is effective for annual periods beginning on or after 1 January 2006.

A financial guarantee contract is defined by HKAS 39 "Financial instruments: Recognition and Measurement" as "a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument".

*The Group acts as the issuer of the financial guarantee contracts*

Prior to 1 April 2006, financial guarantee contracts were not accounted for in accordance with HKAS 39 and those contracts were disclosed as contingent liabilities. A provision for financial guarantee was only recognised when it was probable that an outflow of resources would be required to settle the financial guarantee obligation and the amount can be estimated reliably.

Upon the application of these amendments, a financial guarantee contract issued by the Group and not designated as at fair value through profit or loss is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount determined in accordance with HKAS 37 "Provisions, contingent liabilities and contingent assets"; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 "Revenue".

**2. Significant accounting policies** (Continued)

In relation to a financial guarantee granted to a bank over the repayment of a loan by a jointly controlled entity, the Group has applied the transitional provisions in HKAS 39. The fair value of the financial guarantee contract at the date of grant of approximately HK\$103,000, representing a deemed capital contribution to the jointly controlled entity, has been adjusted to the carrying amount of interests in jointly controlled entities and recognised as a financial guarantee obligation. The cumulative amortisation as at 1 April 2006 of HK\$17,000 has been adjusted against profit or loss in the prior year. This change in accounting policy has resulted in a decrease in loss for the period. The financial impact on the adoption of HKAS 39 and HKFRS 4 (Amendments) is described below.

**Summary of the effects of the changes in accounting policies**

The effect of the changes in the accounting policies described above on the results for the current period and prior year are as follows:

	<b>Six months ended 30 September 2006 HK\$'000</b>	For the year ended 31 March 2006 HK\$'000
Income from amortisation of financial guarantee contract and decrease in loss for the period	<b>51</b>	17
Impairment loss recognised on investments in a jointly controlled entity	<b>(103)</b>	—
	<b><u>(52)</u></b>	<b><u>17</u></b>

2. Significant accounting policies (Continued)

The cumulative effect of the application of the new HKFRSs as at 31 March 2006 is summarised below:

	As at 31 March 2006 (originally stated) HK\$'000	Adjustment HK\$'000	As at 31 March 2006 (restated) HK\$'000
Balance sheet items			
Interests in jointly controlled entities	1,226	103	1,329
Financial guarantee obligations	—	(86)	(86)
	<u>1,226</u>	<u>17</u>	<u>1,243</u>
Total effects on assets and liabilities	<u>1,226</u>	<u>17</u>	<u>1,243</u>
Deficit	<u>(540,804)</u>	<u>17</u>	<u>(540,787)</u>
Total effects on equity	<u>(540,804)</u>	<u>17</u>	<u>(540,787)</u>

The Group has not early applied the following new Standard, Amendments and INTs that have been issued but are not yet effective. The directors of the Company anticipate that the application of these Standards, Amendments or INTs will have no material impact on the results and financial positions of the Group.

HKAS 1 (Amendment)	Capital disclosures <sup>1</sup>
HKFRS 7	Financial instruments: Disclosures <sup>1</sup>
HK(IFRIC) - INT 8	Scope of HKFRS 2 <sup>2</sup>
HK(IFRIC) - INT 9	Reassessment of embedded derivatives <sup>3</sup>
HK(IFRIC) - INT 10	Interim financial reporting and impairment <sup>4</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2007.

<sup>2</sup> Effective for annual periods beginning on or after 1 May 2006.

<sup>3</sup> Effective for annual periods beginning on or after 1 June 2006.

<sup>4</sup> Effective for annual periods beginning on or after 1 November 2006.

### 3. Business segments

For management purposes, the Group's operations are organised into two operating divisions namely software development and investments. These divisions are the basis on which the Group reports its primary segment information.

Business segments for the period are as follows:

	Three months ended		Six months ended	
	30 September		30 September	
	2006	2005	2006	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover				
Software development	<b>733</b>	809	<b>843</b>	2,371
Other operations (unallocated)	<b>—</b>	—	<b>—</b>	1
	<b>733</b>	809	<b>843</b>	2,372
Results				
Software development	<b>(6,810)</b>	(4,438)	<b>(9,338)</b>	(7,145)
Investments	<b>900</b>	(1,182)	<b>1,011</b>	(1,187)
Other operations (unallocated)	<b>(21)</b>	(24)	<b>(51)</b>	(111)
	<b>(5,931)</b>	(5,644)	<b>(8,378)</b>	(8,443)
Central administrative expenses	<b>(1,491)</b>	(1,788)	<b>(4,596)</b>	(3,223)
Other income	<b>842</b>	—	<b>1,949</b>	—
Impairment loss recognised				
on investments in a jointly controlled entity	<b>(103)</b>	—	<b>(103)</b>	—
Allowance for advance made to a jointly controlled entity	<b>(1,226)</b>	—	<b>(1,226)</b>	—
Finance costs	<b>(20)</b>	(165)	<b>(78)</b>	(341)
Discount on acquisition arising from purchase of minority shares of a subsidiary	<b>745</b>	—	<b>745</b>	—
Share of results of associates				
- other operations	<b>(22)</b>	370	<b>(409)</b>	(1,032)
Share of losses of jointly controlled entities				
- other operations	<b>—</b>	(1,838)	<b>—</b>	(3,545)
Loss for the period	<b>(7,206)</b>	(9,065)	<b>(12,096)</b>	(16,584)

#### 4. Other Income

Included in other income is an interest income of HK\$3,407,000 for the six months ended 30 September 2006 (HK\$164,000 for the six months ended 30 September 2005).

#### 5. Taxation

No provision for Hong Kong Profits Tax has been made in the financial statements as the Group had no assessable profit for the period.

#### 6. Interim dividend

The directors do not recommend the payment of an interim dividend (Nil for the six months ended 30 September 2005).

#### 7. Loss per share

The calculation of the basic loss per share is based on the following data:

	Three months ended 30 September 2006		Six months ended 30 September 2006	
		2005		2005
Loss attributable to equity holders of the Company	<u>HK\$(6,947,000)</u>	<u>HK\$(9,010,000)</u>	<u>HK\$(11,785,000)</u>	<u>HK\$(16,443,000)</u>
Weighted average number of ordinary shares for the purposes of basic loss per share	<u>1,035,781,503</u>	<u>1,020,526,069</u>	<u>1,034,852,540</u>	<u>1,019,642,159</u>

No diluted loss per share for the three months and six months ended 30 September 2006 and 30 September 2005 have been presented as the share options granted by the Company are anti-dilutive.

#### 8. Movements in property, plant and equipment

During the six months ended 30 September 2006, the Group incurred HK\$5,717,000 (HK\$82,000 for the six months ended 30 September 2005) on acquisition of property, plant and equipment.

## 9. Equity-linked notes

Equity-linked notes are designated as financial assets at fair value through profit or loss. Major terms of the equity-linked notes are as follows:

<b>Principal amount</b>	<b>Maturity</b>
USD2,500,000	2009
USD1,000,000	2009
HKD15,000,000	2009

The equity-linked notes are subject to mandatory redemption clauses at various intervals until maturity dates depending on the market prices of the Hong Kong listed securities underlying the equity-linked notes. The equity-linked notes are redeemed based on the original principal amounts. The equity-linked notes are interest bearing which ranges between 14% and 18% per annum.

At maturity date, if the equity-linked notes are still outstanding, depending on the market prices of the underlying equity securities and certain pre-determined price levels, the equity-linked notes will be redeemed by the issuer at the principal amounts in cash or shares which may be lower than the principal amounts.

The above equity-linked notes are measured at fair value at balance sheet date. Their fair values are determined based on the valuation provided by the bank at balance sheet date. Accordingly, a fair value change on equity-linked notes of HK\$558,000 is recognised in the condensed consolidated income statements for the six months ended 30 September 2006.

## 10. Available-for-sale investments

Available-for-sale investments are equity securities in Hong Kong. As at the balance sheet date, all available-for-sale investments are stated at fair value which is based on quoted market price.

## 11. Trade and other receivables

Payment terms with customers are mainly on credit together with deposits. Invoices are normally payable within 30 days of issuance, except for certain well established customers. The following is an aged analysis of trade receivables at the reporting date:

	<b>30 September 2006 HK\$'000</b>	31 March 2006 HK\$'000
Age		
0 to 30 days	<b>136</b>	92
31 to 60 days	<b>—</b>	8
Over 90 days	<b>31</b>	—
	<b>167</b>	100

## **12. Share capital**

During the period, 2,350,000, 400,000, 300,000, 450,000 and 800,000 share options were exercised at a subscription price of HK\$0.0722 per share, HK\$0.0870 per share, HK\$0.0900 per share, HK\$0.0982 per share and HK\$0.1530 per share respectively, resulting in an aggregate issue of 4,300,000 ordinary shares of HK\$0.050 each in the Company. All the shares issued during the period ranked pari passu with the then existing shares in all respects.

## **13. Share based payment arrangement**

During the period, the Company has granted 83,500,000 (11,800,000 for the six months ended 30 September 2005) share options to its employees.

## **14. Related party transaction**

### **Guarantee given to a jointly controlled entity**

A subsidiary of the Company, Timeless Software (Guangzhou) Limited has given a guarantee to the extent of RMB5 million (31 March 2006: RMB5 million) in favour of a bank to secure an aggregate RMB5 million (31 March 2006: RMB5 million) loan facility granted to Zhuhai Southern Software Park Development Company Limited, a jointly controlled entity of the Company. The amount utilised as at 30 September 2006 amounted to RMB5 million (31 March 2006: RMB5 million).

### Results for the six months ended 30 September 2006

The directors continued to take a conservative approach for accounting purposes and a stringent view on recognising revenue was still being adopted especially for contracts of relatively longer term in nature in Mainland China. For the six months ended 30 September 2006, the loss attributable to equity holders of the Company was approximately HK\$11.8 million, representing a decrease of 28% as compared to the loss of approximately HK\$16.4 million over the same period in 2005. The Group recorded unaudited turnover of approximately HK\$0.8 million, representing a decrease of 66.7% as compared with that for the corresponding period in 2005.

The other income mainly comprised interest income from bank deposits and equity-linked notes of approximately HK\$1.9 million and HK\$1.5 million respectively.

The increase by 41.5% in staff costs to approximately HK\$9.2 million as compared with that for the corresponding period in 2005 was mainly due to the recognition of share-based payments of approximately HK\$3.8 million to expense the fair value of share options granted during the period to directors and employees of the Group. In comparison, an amount of approximately HK\$1.0 million was recognized in the corresponding period in 2005.

The other expenses were increased by 33.3% to approximately HK\$4.8 million, as compared with that for the corresponding period in 2005. The increase was mainly due to a lease payment of office premises of approximately HK\$1.6 million for the period from 1 April to 30 June 2006. Such lease was terminated on 1 July 2006.

Allowance for advance made to a jointly controlled entity was approximately HK\$1.2 million for the six months ended 30 September 2006.

### Liquidity and financial resources

The Group financed its operations and investing activities primarily with internally generated cash flow.

As at 30 September 2006, the Group had bank balances and cash (excluding pledged bank deposits) of approximately HK\$73.9 million (31 March 2006: HK\$132.5 million). The significant decrease in bank balances as compared with that of last year were mainly due to purchase of equity-linked notes amounting to approximately HK\$42.3 million, purchase office premises located in Beijing at a cash consideration of approximately HK\$3.9 million, and acquisition of additional interests in a subsidiary at a cash consideration of approximately HK\$2.2 million.

As at 30 September 2006, the Group had total outstanding borrowings of approximately HK\$1.4 million (31 March 2006: HK\$1.5 million). The borrowings comprised a bank loan of approximately HK\$1.3 million (31 March 2006: HK\$1.4 million), which is repayable by monthly installment and will be fully repaid on 15 March 2015, and obligations under finance lease of approximately HK\$0.1 million (31 March 2006: HK\$0.1 million), which will be fully repaid on 31 March 2008.

### Gearing ratio

As at 30 September 2006, the Group's gearing ratio was approximately 1.02% (31 March 2006: 1.03%), based on total borrowings of approximately HK\$1.4 million (31 March 2006: HK\$1.5 million) and equity attributable to equity holders of the Company of approximately HK\$137.3 million (31 March 2006: 146.1 million).

### Charge on the Group's assets

As at 30 September 2006, a commercial property with net book value of approximately HK\$2.3 million (31 March 2006: HK\$2.3 million) situated in Guangzhou held by a PRC subsidiary was pledged to a bank to secure the loan of approximately HK\$1.3 million (31 March 2006: HK\$1.4 million).

Bank deposits totaling approximately HK\$10.5 million (31 March 2006: HK\$10.3 million) were pledged to banks to secure the banking facilities. In which, credit facilities of HK\$5 million (31 March 2006: HK\$5 million) were available to its subsidiaries and loan facility of approximately HK\$4.9 million (31 March 2006: HK\$4.8 million) were available to a jointly controlled entity.

### Capital structure

As at 30 September 2006, the Company's total number of issued shares was 1,035,781,503 (31 March 2006: 1,031,481,503). During the period under review, certain directors and employees of the Group exercised share options granted to them under the 2003 share option scheme and 4,300,000 shares of the Company were issued and allotted thereof.

### Segmental information

In respect of business segments, the Group continues to focus on the segment of software development providing total solutions and customized development in respect of web technologies and related services, back-end and supporting technologies, software localization, China informatisation and social industry management projects, as well as business applications and system maintenance.

### Order book and prospects for new business

The amount of orders on hand of the Group was over HK\$3.4 million as at 30 September 2006. In respect of those large projects of relatively longer term in nature in Ningxia Province in Mainland China, progress will be made when funding for these projects becomes certain.

### Material acquisitions and disposal of subsidiaries and affiliated companies

During the period under review, Talent Valley Company Limited ("Talent Valley"), a subsidiary of the Group, repurchased its share capital in nominal value of RMB4 million from a minority shareholder at a cash consideration of RMB2.2 million. As a result of the share repurchase, the registered capital of Talent Valley was reduced from RMB20 million to RMB16 million, effectively increasing the Group's interests in Talent Valley from 70% to 87.5%.

Save as disclosed above, there was no disposal or acquisition of subsidiaries and affiliated companies for the period under review.

### Future plans for material investments

The Group does not have any plan for material investments in the near future.

### Exposure to exchange risks

Since the Group's borrowings and its source of income are primarily denominated in Hong Kong dollars, Renminbi and United States dollars, the exposure to foreign exchange rate fluctuations is minimal. Following the appreciation of Renminbi in July 2005, it is expected to have a positive impact on the future cashflow from Mainland China.

### Contingent liabilities

As at 30 September 2006, the Group has given guarantee of RMB5 million (31 March 2006: RMB5 million) to a bank to secure the credit facilities granted to a jointly controlled entity. At 30 September 2006, the amount of facilities utilized was approximately RMB5 million (31 March 2006: RMB5 million)

As at 30 September 2006, the Company has given corporate guarantees of HK\$5 million (31 March 2006: HK\$5 million) to certain banks to secure the credit facilities granted to its subsidiaries.

### Employee information

As at 30 September 2006, the Group employed a total staff of 50. Staff remuneration is reviewed by the Group from time to time and increases are granted normally annually or by special adjustment depending on length of service and performance when warranted. In addition to salaries, the Group provides staff benefits including medical insurance and provident fund. Share options and bonuses are also available to employees of the Group at the discretion of the directors and depending upon the financial performance of the Group.

### Outlook

We are delighted to report that following the elementary completion of Timeless Consolidated Platform ("TCP"), we have bettered our trends in terms of loss, cash flow and turn-over for the past half-year. Such outcome is the initial contribution by Timeless Consolidated Platform.

Looking ahead, the days of technology development as a heavy cost burden that sinks significantly into our operating expenditure are going to be over. It will be the most important watershed ever since the founding of Timeless ten years ago. Hence, we can gather ourselves to really focus our energy on transforming our technology outcome to capitalize and compound its value in both application and capital market.

## Other Information

### Directors' and Chief Executive's Interests and Short Positions in Shares and Underlying Shares of the Company

At 30 September 2006, the interests and short positions of the directors and the chief executives of the Company and their associates in the shares, underlying shares or debentures of the Company and its associated corporations, as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance ("SFO"), or otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 of the GEM Listing Rules, were as follows:

#### Long positions

##### (a) Ordinary shares of HK\$0.05 each of the Company

Name of director	Number of ordinary shares held in the capacity of			Percentage of shareholding
	Beneficial owner	Controlled corporation	Total number of shares	
Cheng Kin Kwan	182,904,000	—	182,904,000	17.66%
Law Kwai Lam	10,000,000	28,325,000*	38,325,000	3.70%
Chung Yiu Fai	6,170,000	—	6,170,000	0.60%
Leung Mei Sheung, Eliza	6,330,000	—	6,330,000	0.61%
Zheng Ying Yu	1,350,000	—	1,350,000	0.13%
Fung Chun Pong, Louis	2,488,000	—	2,488,000	0.24%
Liao Yun	1,010,000	—	1,010,000	0.10%

\* These shares were held by a private company which is wholly-owned by Mr. Law Kwai Lam.

**Directors' and Chief Executive's Interests and Short Positions in Shares and Underlying Shares of the Company** (continued)

**(b) Options to subscribe for ordinary shares of the Company**

Particulars of the directors' interests in share options to subscribe for shares in the Company pursuant to the Company's 2000 share option scheme and 2003 share option scheme were as follows:

Name of director	Date of grant	Exercisable period	Exercise price per share HK\$	Number of share options and number of underlying shares				
				Outstanding at 1.4.2006	Granted during the period	Exercised during the period	Lapsed during the period	Outstanding at 30.9.2006
Cheng Kin Kwan	22.4.2002	22.4.2003 – 21.4.2006	0.4550	650,000	—	—	(650,000)	—
	5.9.2003	5.9.2003 – 4.9.2013	0.2280	6,960,000	—	—	—	6,960,000
	8.12.2003	8.12.2003 – 7.12.2013	0.2130	800,000	—	—	—	800,000
	25.2.2004	25.2.2004 – 24.2.2014	0.1900	7,700,000	—	—	—	7,700,000
	24.3.2006	24.3.2006 – 23.3.2016	0.1530	800,000	—	(800,000)	—	—
	26.9.2006	26.9.2006 – 25.9.2016	0.0772	—	9,500,000	(9,500,000)	—	—
Law Kwai Lam	5.9.2003	5.9.2003 – 4.9.2013	0.2280	2,000,000	—	—	—	2,000,000
	9.1.2004	9.1.2004 – 8.1.2014	0.1900	1,000,000	—	—	—	1,000,000
	28.2.2005	28.2.2005 – 27.2.2015	0.0722	1,000,000	—	—	—	1,000,000
	26.9.2006	26.9.2006 – 25.9.2016	0.0772	—	3,500,000	—	—	3,500,000
Chung Yiu Fai	22.4.2002	22.4.2003 – 21.4.2006	0.4550	300,000	—	—	(300,000)	—
	5.9.2003	5.9.2003 – 4.9.2013	0.2280	5,500,000	—	—	—	5,500,000
	8.12.2003	8.12.2003 – 7.12.2013	0.2130	400,000	—	—	—	400,000
	25.2.2004	25.2.2004 – 24.2.2014	0.1900	6,450,000	—	—	—	6,450,000
	16.9.2004	16.9.2004 – 15.9.2014	0.0870	2,300,000	—	—	—	2,300,000
	13.12.2004	13.12.2004 – 12.12.2014	0.0982	300,000	—	—	—	300,000
	28.2.2005	28.2.2005 – 27.2.2015	0.0722	5,000,000	—	(1,000,000)	—	4,000,000
	22.9.2005	22.9.2005 – 21.9.2015	0.0920	2,400,000	—	—	—	2,400,000
	24.3.2006	24.3.2006 – 23.3.2016	0.1530	300,000	—	—	—	300,000
	26.9.2006	26.9.2006 – 25.9.2016	0.0772	—	9,500,000	—	—	9,500,000

**Directors' and Chief Executive's Interests and Short Positions in Shares and Underlying Shares of the Company** (continued)

**(b) Options to subscribe for ordinary shares of the Company** (continued)

Name of director	Date of grant	Exercisable period	Exercise price per share HK\$	Number of share options and number of underlying shares				
				Outstanding at 1.4.2006	Granted during the period	Exercised during the period	Lapsed during the period	Outstanding at 30.9.2006
Leung Mei Sheung, Eliza	5.9.2003	5.9.2003 – 4.9.2013	0.2280	5,500,000	—	—	—	5,500,000
	8.12.2003	8.12.2003 – 7.12.2013	0.2130	4,300,000	—	—	—	4,300,000
	25.2.2004	25.2.2004 – 24.2.2014	0.1900	5,800,000	—	—	—	5,800,000
	13.12.2004	13.12.2004 – 12.12.2014	0.0982	3,430,000	—	—	—	3,430,000
	28.2.2005	28.2.2005 – 27.2.2015	0.0722	2,500,000	—	(1,000,000)	—	1,500,000
	22.9.2005	22.9.2005 – 21.9.2015	0.0920	400,000	—	—	—	400,000
	24.3.2006	24.3.2006 – 23.3.2016	0.1530	300,000	—	—	—	300,000
	26.9.2006	26.9.2006 – 25.9.2016	0.0772	—	9,500,000	—	—	9,500,000
Zheng Ying Yu	22.4.2002	22.4.2003 – 21.4.2006	0.4550	300,000	—	—	(300,000)	—
	5.9.2003	5.9.2003 – 4.9.2013	0.2280	2,000,000	—	—	—	2,000,000
	8.12.2003	8.12.2003 – 7.12.2013	0.2130	400,000	—	—	—	400,000
	9.1.2004	9.1.2004 – 8.1.2014	0.1900	7,000,000	—	—	—	7,000,000
	13.12.2004	13.12.2004 – 12.12.2014	0.0982	500,000	—	—	—	500,000
	28.2.2005	28.2.2005 – 27.2.2015	0.0722	1,000,000	—	(350,000)	—	650,000
	22.9.2005	22.9.2005 – 21.9.2015	0.0920	400,000	—	—	—	400,000
	24.3.2006	24.3.2006 – 23.3.2016	0.1530	300,000	—	—	—	300,000
26.9.2006	26.9.2006 – 25.9.2016	0.0772	—	2,000,000	—	—	2,000,000	
Fung Chun Pong, Louis	5.9.2003	5.9.2003 – 4.9.2013	0.2280	2,000,000	—	—	—	2,000,000
	9.1.2004	9.1.2004 – 8.1.2014	0.1900	1,000,000	—	—	—	1,000,000
	19.4.2004	19.4.2004 – 18.4.2014	0.2096	300,000	—	—	—	300,000
	30.9.2004	30.9.2004 – 29.9.2014	0.0900	300,000	—	—	—	300,000
	13.12.2004	13.12.2004 – 12.12.2014	0.0982	300,000	—	—	—	300,000
	22.9.2005	22.9.2005 – 21.9.2015	0.0920	400,000	—	—	—	400,000
	24.3.2006	24.3.2006 – 23.3.2016	0.1530	300,000	—	—	—	300,000
	26.9.2006	26.9.2006 – 25.9.2016	0.0772	—	1,000,000	—	—	1,000,000
Liao Yun	22.4.2002	22.4.2003 – 21.4.2006	0.4550	200,000	—	—	(200,000)	—
	5.9.2003	5.9.2003 – 4.9.2013	0.2280	800,000	—	—	—	800,000
	26.11.2003	26.11.2003 – 25.11.2013	0.2300	400,000	—	—	—	400,000
	9.1.2004	9.1.2004 – 8.1.2014	0.1900	790,000	—	—	—	790,000
	19.4.2004	19.4.2004 – 18.4.2014	0.2096	300,000	—	—	—	300,000
	16.9.2004	16.9.2004 – 15.9.2014	0.0870	500,000	—	—	—	500,000
	30.9.2004	30.9.2004 – 29.9.2014	0.0900	500,000	—	—	—	500,000
	13.12.2004	13.12.2004 – 12.12.2014	0.0982	300,000	—	—	—	300,000
	28.2.2005	28.2.2005 – 27.2.2015	0.0722	2,000,000	—	—	—	2,000,000
	22.9.2005	22.9.2005 – 21.9.2015	0.0920	400,000	—	—	—	400,000
	24.3.2006	24.3.2006 – 23.3.2016	0.1530	300,000	—	—	—	300,000
	26.9.2006	26.9.2006 – 25.9.2016	0.0772	—	2,000,000	—	—	2,000,000

**Directors' and Chief Executive's Interests and Short Positions in Shares and Underlying Shares of the Company** (continued)

**(b) Options to subscribe for ordinary shares of the Company** (continued)

Name of director	Date of grant	Exercisable period	Exercise price per share HK\$	Number of share options and number of underlying shares				
				Outstanding at 1.4.2006	Granted during the period	Exercised during the period	Lapsed during the period	Outstanding at 30.9.2006
Ng Kwok Tung	28.2.2005	28.2.2005 - 27.2.2015	0.0722	1,000,000	—	(1,000,000)	—	—
	24.3.2006	24.3.2006 - 23.3.2016	0.1530	500,000	—	—	—	500,000
	26.9.2006	26.9.2006 - 25.9.2016	0.0772	—	3,000,000	—	—	3,000,000
Tsang Wai Chun, Marianna	24.3.2006	24.3.2006 - 23.3.2016	0.1530	500,000	—	—	—	500,000
	26.9.2006	26.9.2006 - 25.9.2016	0.0772	—	3,000,000	—	—	3,000,000
Chan Mei Ying, Spencer	24.3.2006	24.3.2006 - 23.3.2016	0.1530	500,000	—	—	—	500,000
	26.9.2006	26.9.2006 - 25.9.2016	0.0772	—	3,000,000	—	—	3,000,000
				<u>91,580,000</u>	<u>46,000,000</u>	<u>(13,650,000)</u>	<u>(1,450,000)</u>	<u>122,480,000</u>

Save as disclosed above and other than nominee shares in certain wholly-owned subsidiaries held by certain directors in trust for the Group, at 30 September 2006, none of the directors or chief executive or any of their respective associates had any interests or short positions in the shares, underlying shares or debentures of the Company or its associated corporations which fall to be notified to the Company and the Stock Exchange pursuant to Part XV of the SFO, or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein or which were required to be notified to the Company and the Stock Exchange pursuant to Rule 5.46 of the GEM Listing Rules.

### Substantial Shareholders' Interests and Short Positions in Shares and Underlying Shares

As at 30 September 2006, according to the register maintained by the Company pursuant to Section 336 of the SFO, the following persons (not being a director or the chief executive of the Company) were, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital of the Company.

Name of substantial shareholder	Number of ordinary shares held	Number of share options and underlying shares held	Aggregate long position	Percentage of the issued share capital as at 30 September 2006
Educational Information Technology (H.K.) Company Limited *	108,057,374	—	108,057,374	10.43%
Crimson Asia Capital Limited, L.P.**	105,203,591	—	105,203,591	10.16%
Kan Siu Kei, Laurie**	41,978,000	17,000,000	58,978,000	5.69%

\* These shares were held in trust for 寧夏教育信息技術股份有限公司 (Ningxia Educational Information Technology Company Limited), a company in which the Group has 25% interest.

\*\* These shares were beneficially owned by the respective parties.

Save as disclosed in the section "Directors' and chief executive's interests and short positions in shares and underlying shares of the Company", at 30 September 2006, the Company had not been notified of any other interests or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under Part XV of the SFO.

### Share Options

#### (a) 2000 share option scheme

A summary of the share options granted under the 2000 share option scheme are as follows:

Type of participants	Date of grant	Exercisable period	Exercise price per share HK\$	Number of share options		
				Outstanding at 1.4.2006	Lapsed during the period	Outstanding at 30.9.2006
Directors	22.4.2002	22.4.2003 – 21.4.2006	0.455	1,450,000	(1,450,000)	—
Employees	22.4.2002	22.4.2003 – 21.4.2006	0.455	1,500,000	(1,500,000)	—
				<u>2,950,000</u>	<u>(2,950,000)</u>	<u>—</u>

Share Options (continued)

(b) 2003 share option scheme

A summary of the share options granted under the 2003 share option scheme are as follows:

Type of participants	Date of grant	Exercisable period	Exercise price per share HK\$	Number of share options					Notes
				Outstanding at 1.4.2006	Granted during the period	Exercised during the period	Lapsed during the period	Outstanding at 30.9.2006	
Directors	5.9.2003	5.9.2003 – 4.9.2013	0.2280	24,760,000	—	—	—	24,760,000	N/A
	26.11.2003	26.11.2003 – 25.11.2013	0.2300	400,000	—	—	—	400,000	N/A
	8.12.2003	8.12.2003 – 7.12.2013	0.2130	5,900,000	—	—	—	5,900,000	N/A
	9.1.2004	9.1.2004 – 8.1.2014	0.1900	9,790,000	—	—	—	9,790,000	N/A
	25.2.2004	25.2.2004 – 24.2.2014	0.1900	19,950,000	—	—	—	19,950,000	N/A
	19.4.2004	19.4.2004 – 18.4.2014	0.2096	600,000	—	—	—	600,000	N/A
	16.9.2004	16.9.2004 – 15.9.2014	0.0870	2,800,000	—	—	—	2,800,000	N/A
	30.9.2004	30.9.2004 – 29.9.2014	0.0900	800,000	—	—	—	800,000	N/A
	13.12.2004	13.12.2004 – 12.12.2014	0.0982	4,830,000	—	—	—	4,830,000	N/A
	28.2.2005	28.2.2005 – 27.2.2015	0.0722	12,500,000	—	(3,350,000)	—	9,150,000	(1)
	22.9.2005	22.9.2005 – 21.9.2015	0.0920	4,000,000	—	—	—	4,000,000	N/A
	24.3.2006	24.3.2006 – 23.3.2016	0.1530	3,800,000	—	(800,000)	—	3,000,000	(2)
	26.9.2006	26.9.2006 – 25.9.2016	0.0772	—	46,000,000	(9,500,000)	—	36,500,000	(3)
Employees	5.9.2003	5.9.2003 – 4.9.2013	0.2280	24,800,000	—	—	(300,000)	24,500,000	N/A
	15.9.2003	15.9.2003 – 14.9.2013	0.2550	8,600,000	—	—	(200,000)	8,400,000	N/A
	26.11.2003	26.11.2003 – 25.11.2013	0.2300	2,600,000	—	—	(200,000)	2,400,000	N/A
	8.12.2003	8.12.2003 – 7.12.2013	0.2130	800,000	—	—	—	800,000	N/A
	9.1.2004	9.1.2004 – 8.1.2014	0.1900	7,294,000	—	—	(698,000)	6,596,000	N/A
	25.2.2004	25.2.2004 – 24.2.2014	0.1900	20,000,000	—	—	—	20,000,000	N/A
	19.4.2004	19.4.2004 – 18.4.2014	0.2096	1,200,000	—	—	(300,000)	900,000	N/A
	16.9.2004	16.9.2004 – 15.9.2014	0.0870	5,850,000	—	(400,000)	—	5,450,000	(4)
	30.9.2004	30.9.2004 – 29.9.2014	0.0900	4,400,000	—	(300,000)	(200,000)	3,900,000	(5)
	13.12.2004	13.12.2004 – 12.12.2014	0.0982	2,050,000	—	(450,000)	—	1,600,000	(6)
	28.2.2005	28.2.2005 – 27.2.2015	0.0722	6,700,000	—	—	(200,000)	6,500,000	N/A
	11.5.2005	11.5.2005 – 10.5.2015	1.0380	3,000,000	—	—	—	3,000,000	N/A
	22.9.2005	22.9.2005 – 21.9.2015	0.0920	4,800,000	—	—	—	4,800,000	N/A
	24.3.2006	24.3.2006 – 23.3.2016	0.1530	3,800,000	—	—	—	3,800,000	N/A
	26.9.2006	26.9.2006 – 25.9.2016	0.0772	—	37,500,000	—	—	37,500,000	(7)
				<u>186,024,000</u>	<u>83,500,000</u>	<u>(14,800,000)</u>	<u>(2,098,000)</u>	<u>252,626,000</u>	

Share Options (continued)

(b) 2003 share option scheme (continued)

Notes:

- (1) The weighted average closing prices of the Company's shares immediately before the date of exercise of 1,350,000 options on 6 April 2006, 1,000,000 options on 25 May 2006, 1,000,000 options on 26 September 2006 were HK\$0.1490, HK\$0.1000 and HK\$0.0770 respectively.
- (2) The weighted average closing prices of the Company's shares immediately before the date of exercise of 800,000 options on 31 March 2006 was HK\$0.1450.
- (3) The closing price of the Company's shares immediately before the date of grant on 25 September 2006 was HK\$0.0760 while the weighted average closing prices of the Company's shares immediately before the date of exercise of 9,500,000 options on 27 September 2006 was HK\$0.0770.
- (4) The weighted average closing prices of the Company's shares immediately before the date of exercise of 400,000 options on 11 April 2006 was HK\$0.1430.
- (5) The weighted average closing prices of the Company's shares immediately before the date of exercise of 300,000 options on 11 April 2006 was HK\$0.1430.
- (6) The weighted average closing prices of the Company's shares immediately before the date of exercise of 300,000 options on 10 April 2006 and 150,000 options on 26 April 2006 were HK\$0.1490 and HK\$0.1450 respectively.
- (7) The closing price of the Company's shares immediately before the date of grant on 25 September 2006 was HK\$0.0760.

(c) Share-based payment transactions

During the period ended 30 September 2006, options were granted on 26 September 2006. The estimated fair value of the option granted on that date is HK\$0.0772.

The Company has used the Black-Scholes option pricing model (the "Model") to value the share options granted during the period. The Model is one of the commonly used models to estimate the fair value of the option. The value of an option varies with different variables of certain subjective assumptions. Any change in the variables so adopted may materially affect the estimation of the fair value of an option.

Details of the fair value of share option determined at the date of grant using the Model with the inputs are as follows:

	<b>26.9.2006</b>
Weighted average share price	HK\$0.0770
Exercise price	HK\$0.0772
Expected volatility	82.23%
Expected life	5 years
Risk-free rate	3.67%
Expected dividend yield	0%

**Share Options** (continued)

**(c) Share-based payment transactions** (continued)

Expected volatility was determined by using the historical volatility of the Company's share price over the previous year. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non transferability, exercise restrictions and behavioral considerations.

The Group recognised the total expense of approximately HK\$3.8 million for the period ended 30 September 2006 in relation to share options granted by the Company.

**Competing interest**

As at 30 September 2006, none of the directors or management shareholder (as defined in the GEM Listing Rules) of the Company or their respective associates had any interest in a business which competes or may compete with the business of the Group.

**Purchase, sale or redemption of the Company's listed securities**

During the period, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

**Code on Corporate Governance Practices**

The Company has complied with the code provisions of the Code on Corporate Governance Practices contained in Appendix 1.5 to the GEM Listing Rules, except that Mr. Cheng Kin Kwan holds the dual roles of being the chairman and the chief executive officer of the Company. The Board considers that this structure will not impair the balance of power and authority between the Board and the management of the Company. The Board also believes that Mr. Cheng's appointment as both the chairman and chief executive officer is beneficial to the business prospects of the Company, better facilitates the execution of the Group's business strategies and maximizes effectiveness of its operations. Save as disclosed above, the Company has met the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 1.5 of the GEM Listing Rules throughout the six months ended 30 September 2006.

**Code of conduct regarding securities transactions by directors**

The Company has adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry of all directors, all directors confirmed that they have complied with the required standard of dealings and the code of conduct regarding securities transactions by directors adopted by the Company throughout the six months ended 30 September 2006.

**Audit committee**

The audit committee comprises three independent non-executive directors, Mr. Ng Kwok Tung, Ms. Tsang Wai Chun Marianna and Mr. Chan Mei Ying Spencer. The audit committee has reviewed the unaudited interim financial report for the six months ended 30 September 2006 in conjunction with the Company's external auditors.

On behalf of the Board

**Cheng Kin Kwan**

*Chairman & Chief Executive Officer*

Hong Kong, 10 November 2006